



# State of Wisconsin • DEPARTMENT OF REVENUE

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**Jim Doyle**  
Governor

**Roger M. Ervin**  
Secretary of Revenue

Senate Environment and Natural Resources Committee, February 7, 2008

## **SB 421– Sales Tax Holiday for Energy Star Products (Sen. Miller)**

### *Description of Current Law and Proposed Change*

The bill exempts from sales and use taxes certain sales of items of tangible personal property that meet the energy efficiency guidelines of the federal Energy Star program. The exemption would apply to sales of items for residential use purchased during the seven-day period beginning on the Saturday immediately preceding April 21 (Earth Day) and for which the price is less than \$1,500. The exemption does not apply to items purchased by a contractor or subcontractor or to items purchased primarily for entertainment purposes. The exemption would take effect on the first day of the twelfth month beginning after publication.

The sales tax holiday under the bill would cover a wide range of residential products certified under the Energy Star program. Certified product groups include appliances, computers and other office equipment, light bulbs, furnaces, central air conditioning units, and certain building and insulating materials (such as qualifying doors, windows, and roofing).

### *Fairness/Tax Equity*

- To the degree a sales tax holiday coincides with purchases that would have been made without the temporary sales tax exemption, the bill may simply provide a tax reduction to those consumers who happen to be purchasing the products at that time.
- The bill can create inequity based on timing or price. Sales tax holidays may be unfair to those who made purchases only a few days earlier or later than the designated period - especially those making large purchases due to a need to replace a failing major appliance. The \$1,500 cap on the price of an exempt product under the bill may disallow exemption for products most suitable for certain families.
- Inequity can exist under the bill between homeowners looking for different products. Since the share of products qualifying for the Energy Star designation varies by type of product and varies over time, the availability of the tax incentive created by the bill can vary by consumer. If a much larger share of dishwashers is Energy Star qualified than are room air conditioners, a homeowner looking for a new dishwasher may be more likely to benefit from the exemption. This variability can be sharp. For example, the share of dishwashers in 2005 meeting Energy Star standards was estimated at nearly 90% while the share of clothes washers meeting the standard was only about 33%. Prior to modifications to the standards in 2007, nearly all new computers available for purchase were achieving Energy Star standards.

- It may be unclear if the consumer or retailer benefits from the exemption since other discounts that may occur in absence of the bill may be modified due to the sales tax holiday.

#### *Impact on Economic Development*

- By increasing the overall visibility of energy-efficient products, the bill may lead to an overall increase in the purchase of these products and thereby create energy savings.

#### *Administrative Impact/Fiscal Effect*

- Assuming 60% of the estimated Wisconsin sales of room air conditioners, dehumidifiers, refrigerators, freezers, clothes washers, computers and peripheral equipment, compact fluorescent lighting, and heating and air conditioning units are Energy Star qualified (95% for lighting), and assuming that the one-week exemption created by the bill draws three weeks of average weekly sales, the bill is estimated to decrease state sales tax collections by \$2.1 million annually. County and stadium sales and use taxes would decrease by \$160,000 annually.
- The temporary exemption provided in the bill is complex. The new exemption may be confusing to consumers. A retailer would have no way of knowing if certain sales meet the criteria for exemption (for residential use and not primarily for entertainment).
- The sales tax holiday created by the bill would need to be amended to allow Wisconsin to comply with the Streamlined Sales and Use Tax Agreement if the state were to join this effort to increase equity between businesses in the state and Internet and mail-order retailers located outside of Wisconsin.

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